



**Umzumbe**  
MUNICIPALITY

**Annual Financial Statements  
for the year ended June 30, 2015**

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## General Information

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<b>Nature of business and principal activities</b>	Providing services to the community of Umzumbe
<b>Executive Committee</b>	Councillor Gumedé ST (Mayor) Councillor Dlamini NY (Deputy Mayor) Councillor Ngcobo (Speaker) Councillor Duma YL (Exco Member) Councillor Mntambo JP (Exco Member) Councillor Ndlovu M (Exco Member) Councillor Shozi MP (Exco Member) Councillor Zungu MPL (Exco Member)
<b>Councillors</b>	Councillor Caluza B Councillor Caluza N Councillor Doncabe KS Councillor Gwabe CS Councillor Hlongwa M Councillor Hlongwa PA Councillor Khuzwayo M Councillor Khuzwayo T Councillor Lushaba S Councillor Luthuli MZ Councillor Maluleka SP Councillor Mbambo OJ Councillor Mbayi TM Councillor Mbele BI Councillor Mbhele KBM Councillor Mbuto N Councillor Mdletshe MS Councillor Mhlangu NE Councillor Mkhize MJ Councillor Mqadi MR Councillor Msomi DK Councillor Ngcobo LMR Councillor Peters TL Councillor Radebe SP Councillor Shezi CL Councillor Shozi NB Councillor Shozi Z Councillor Sikhosana B Councillor Zindela AE
<b>Accounting Officer</b>	Ms NC Mgijima
<b>Registered office</b>	Sipofu Road Mathulini Tribal Authority 4220

# **Umzumbe Local Municipality**

Annual Financial Statements for the year ended June 30, 2015

## **General Information**

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<b>Business address</b>	Sipofu Road Mathulini Tribal Authority 4220
<b>Postal address</b>	P.O. Box 561 Hibberdene 4220
<b>Bankers</b>	ABSA Bank Limited
<b>Auditors</b>	Auditor General South Africa Registered Auditors

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Index

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The reports and statements set out below comprise the annual financial statements presented to the Council:

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### Abbreviations

VAT	Value Added Tax
SDL	Skills Development Levy
GRAP	Generally Recognised Accounting Practice
GIS	Geographical Information Systems
COGTA	Department of Cooperative Governance and Traditional Affairs
IAS	International Accounting Standards
DORA	Division of Revenue Act
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn
MSIG	Municipal Systems Improvement Grant

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2016 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on the grant allocations through the Division of revenue act (Dora) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, she is supported by the municipality's Chief Financial Officer.

The annual financial statements set out on pages 5 to 42, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by the accounting officer:

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Ms NC Mgijima  
Municipal Manager

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Financial Position as at June 30, 2015

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Current Assets</b>			
Receivables from exchange transactions	4	83,328	96,365
VAT receivable	5	7,484,687	6,517,221
Trade and other receivables from non-exchange transactions	6	4,485,662	3,176,419
Cash and Cash Equivalents	7	110,413,313	91,786,002
		<b>122,466,990</b>	<b>101,576,007</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	2	252,263,885	194,866,712
Intangible Assets	3	455,710	183,296
		<b>252,719,595</b>	<b>195,050,008</b>
<b>Total Assets</b>		<b>375,186,585</b>	<b>296,626,015</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Operating lease liability	10	17,569	9,464
Trade and Other Payables	11	11,952,107	11,352,664
Unspent Conditional Grants and Receipts	8	8,492,304	7,701,559
Provisions	9	3,237,057	2,730,665
		<b>23,699,037</b>	<b>21,794,352</b>
<b>Non-Current Liabilities</b>			
Provisions	9	642,000	509,000
<b>Total Liabilities</b>		<b>24,341,037</b>	<b>22,303,352</b>
<b>Net Assets</b>		<b>350,845,548</b>	<b>274,322,663</b>
Accumulated Surplus		350,845,548	274,322,663

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Revenue</b>			
Other income	15	1,996,815	445,113
Interest received - investment		6,429,747	4,503,583
Property rates	12	4,975,846	4,977,152
Government grants & subsidies	13	179,053,070	138,242,006
<b>Total revenue</b>		<b>192,455,478</b>	<b>148,167,854</b>
<b>Expenditure</b>			
Employee Related Costs	17	32,945,237	26,538,744
Remuneration of Councillors	18	12,183,764	11,386,533
Depreciation Amortisation and Impairment	20	15,844,824	11,197,883
Finance costs		46,000	37,000
Debt Impairment	19	395,705	397,010
Repairs and Maintenance		2,204,780	7,750,304
General Expenses	16	49,425,642	39,726,838
<b>Total expenditure</b>		<b>113,045,952</b>	<b>97,034,312</b>
<b>Operating surplus</b>			
Loss on disposal of assets		(2,886,641)	(1,348,391)
<b>Surplus for the year</b>		<b>76,522,885</b>	<b>49,785,151</b>

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total net assets
Opening balance as previously reported	222,718,497	222,718,497
Adjustments		
Correction of errors	1,819,015	1,819,015
<b>Balance at July 1, 2013 as restated*</b>	<b>224,537,512</b>	<b>224,537,512</b>
Changes in net assets		
Surplus for the year	49,785,151	49,785,151
Total changes	49,785,151	49,785,151
<b>Restated Balance at 30 June 2014</b>	<b>274,322,663</b>	<b>274,322,663</b>
Changes in net assets		
Surplus for the year	76,522,885	76,522,885
Total changes	76,522,885	76,522,885
<b>Balance at June 30, 2015</b>	<b>350,845,548</b>	<b>350,845,548</b>
Note(s)		

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from Customers		3,296,330	2,652,128
Grants		179,843,916	133,820,040
Interest income		6,429,747	4,503,583
		<b>189,569,993</b>	<b>140,975,751</b>
<b>Payments</b>			
Finance costs		(46,000)	(37,000)
Cash Paid to Suppliers and Employees		(95,566,469)	(85,034,029)
		<b>(95,612,469)</b>	<b>(85,071,029)</b>
<b>Net cash flows from operating activities</b>	<b>22</b>	<b>93,957,524</b>	<b>55,904,722</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(75,182,925)	(42,464,760)
Proceeds from sale of property, plant and equipment	2	212,664	915,003
Purchase of other intangible assets	3	(359,953)	(126,441)
<b>Net cash flows from investing activities</b>		<b>(75,330,214)</b>	<b>(41,676,198)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		<b>18,627,310</b>	<b>14,228,524</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>91,786,002</b>	<b>77,557,478</b>
		<b>110,413,312</b>	<b>91,786,002</b>

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference: Refer to Appendix D1
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Other income	4,545,385	15,006,106	<b>19,551,491</b>	1,996,815	<b>(17,554,676)</b>	
Interest Earned - External Investments	3,200,000	1,250,000	<b>4,450,000</b>	6,429,747	<b>1,979,747</b>	
<b>Total revenue from exchange transactions</b>	<b>7,745,385</b>	<b>16,256,106</b>	<b>24,001,491</b>	<b>8,426,562</b>	<b>(15,574,929)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	4,157,557	-	<b>4,157,557</b>	4,975,846	<b>818,289</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	155,194,000	32,176,558	<b>187,370,558</b>	179,053,070	<b>(8,317,488)</b>	
<b>Total revenue from non-exchange transactions</b>	<b>159,351,557</b>	<b>32,176,558</b>	<b>191,528,115</b>	<b>184,028,916</b>	<b>(7,499,199)</b>	
<b>Total revenue</b>	<b>167,096,942</b>	<b>48,432,664</b>	<b>215,529,606</b>	<b>192,455,478</b>	<b>(23,074,128)</b>	
<b>Expenditure</b>						
Salary Related Costs	(47,691,558)	-	<b>(47,691,558)</b>	(45,129,001)	<b>2,562,557</b>	
Repairs, maintenance & depreciation	(18,570,000)	(3,405,584)	<b>(21,975,584)</b>	(18,049,604)	<b>3,925,980</b>	
Community Participation	(1,900,000)	(264,943)	<b>(2,164,943)</b>	-	<b>2,164,943</b>	
General and Other Expenses	(43,408,000)	(7,576,665)	<b>(50,984,665)</b>	(49,867,347)	<b>1,117,318</b>	
<b>Total expenditure</b>	<b>(111,569,558)</b>	<b>(11,247,192)</b>	<b>(122,816,750)</b>	<b>(113,045,952)</b>	<b>9,770,798</b>	
<b>Operating surplus</b>						
Loss on disposal of assets	-	-	-	(2,886,641)	<b>(2,886,641)</b>	
<b>Surplus / (Deficit)</b>	<b>55,527,384</b>	<b>37,185,472</b>	<b>92,712,856</b>	<b>76,522,885</b>	<b>(16,189,971)</b>	
<b>Capital</b>						
Capital Expenditure	(55,527,384)	(37,185,472)	<b>(92,712,856)</b>	(75,542,878)	<b>17,169,978</b>	

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference: Refer to Appendix D1
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### Cash Flow Statement

#### Cash flows from operating activities

Net cash (from) from operating activities	55,527,384	37,185,472	<b>92,712,856</b>	93,957,525	<b>1,244,669</b>
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#### Cash flows from investing activities

Net cash from (used) investing activities	(55,527,384)	(37,185,472)	<b>(92,712,856)</b>	(75,330,214)	<b>17,382,642</b>
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Net increase/(decrease) in cash and cash equivalents	-	-	-	18,627,311	<b>18,627,311</b>
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Cash and cash equivalents at the beginning of the year	-	-	-	91,786,002	<b>91,786,002</b>
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<b>Cash and cash equivalents at the end of the year</b>	-	-	-	<b>110,413,313</b>	<b>110,413,313</b>
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# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

The accounting policies on pages 11 to 19 and the notes on pages 20 to 42 form an integral part of the annual financial statements.

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

GRAP - 1 Presentation of Financial Statements

GRAP - 2 Cashflow Statements

GRAP - 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP - 9 Revenue from Exchange Transactions

GRAP - 13 Leases

GRAP - 17 Property Plant and Equipment

GRAP - 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP - 26 Impairment of Cash Generating Assets

GRAP - 31 Intangible Assets

GRAP - 14 Events after the reporting date

GRAP - 24 Presentation of Budget Information in Financial Statements

GRAP - 23 Revenue from Non-exchange Transactions

GRAP - 25 Employee Benefits

GRAP - 104 Financial Instruments

#### **The following GRAP standards have been issued but are not yet effective**

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality:.

GRAP 109 - Accounting by Principals and Agents

GRAP 20 - Related party disclosures

GRAP 32 Service concession agreements : Grantor

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

GRAP 108 Statutory Receivables

## 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

## 1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction or at a nominal cost, its cost is its fair value as at date of acquisition. Where the actual acquisition date or period in respect of assets can not be determined with accuracy, the assets are recognised at fair value on the date that they were identified.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life (Years)
Solid Waste Disposal	5 - 55
Dwellings	5 - 30
Computer Equipment	5 - 10
Electricity	3 - 80

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.2 Property, plant and equipment (continued)

Furniture & Office Equipment	3 - 10
Non Residential Dwellings	10 - 30
Transport Assets	04 - 20
Machinery & Equipment	2 - 20
Roads	3 - 100

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The depreciation formula changes when any of these parameters (remaining useful life, residual value, impairment) are changed or adjusted.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### Assets Under Construction

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

### 1.3 Intangible Assets

An intangible asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.3 Intangible Assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 5 years

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.4 Financial Instruments

#### Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

#### Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### Bank Overdraft and Borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

#### Receivables from non exchange transactions

Trade receivables from non-exchange transactions are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Where the initial credit period granted is not in line with practices or legislation in the public sector, the effect of discounting is considered if it is material.

### 1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.5 Leases (continued)

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating Leases - Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.6 Employee Benefits

#### Short-Term Employee Benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined Contribution Plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The Municipality's employees are members of the Kwazulu - Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan) and Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution

Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan.

As the plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan.

#### Long Service Awards

The municipality has an obligation to provide Long Service Awards Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.6 Employee Benefits (continued)

#### Pension, Provident, Retirement Benefits and Group Life Scheme

The municipality provides retirement benefits for its employees in the form of both defined benefit and defined contribution plans. The municipality is no longer providing retirement benefits for the Councillors as they are now getting a total cost to company package.

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement. A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

### 1.7 Provisions and Contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Contingent assets and contingent liabilities are not recognised but disclosed as a note in the financial statements.

### 1.8 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from unconditional grants are recognised immediately upon receipt.

Revenue from tender sales is recognised when the bidders have actually bought the tender documents and cash has been received.

#### Rates

Revenue from rates is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.8 Revenue (continued)

- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

### Conditional Grants and Receipts

Conditional grants, donations and funding are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If grants are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.9 Comparative Figures

Where materially necessary, comparative figures have been reclassified and restated to conform to changes in presentation in the current year.

### 1.10 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.11 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.12 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.13 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.14 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### 1.15 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

### 1.16 Value Added Tax (VAT)

The municipality accounts for Value Added Tax on the cash basis with respect to the South African Revenue Service

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

### 1.17 Commitments

Commitments may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. In determining the value of commitments, the Municipality may utilise savings among projects. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 2. Property, plant and equipment

	2015			2014		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Machinery Equipment	14,503,717	(1,597,968)	12,905,749	9,309,064	(1,133,919)	8,175,145
Furniture and Office Equipment	3,570,223	(1,972,458)	1,597,765	3,004,326	(1,790,397)	1,213,929
Transport Assets	6,244,733	(1,509,233)	4,735,500	3,699,829	(1,087,845)	2,611,984
Computer Equipment	2,121,322	(1,303,511)	817,811	1,933,120	(1,089,430)	843,690
Solid Waste Disposal	265,544	(51,239)	214,305	234,044	(31,393)	202,651
Dwellings	942,676	(409,377)	533,299	942,676	(308,378)	634,298
Non Residential Dwellings	55,699,100	(16,364,887)	39,334,213	58,677,633	(14,408,474)	44,269,159
Roads	149,854,723	(34,793,450)	115,061,273	118,145,762	(24,356,983)	93,788,779
Assets under construction	77,063,970	-	77,063,970	43,127,077	-	43,127,077
<b>Total</b>	<b>310,266,008</b>	<b>(58,002,123)</b>	<b>252,263,885</b>	<b>239,073,531</b>	<b>(44,206,819)</b>	<b>194,866,712</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 2. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Donated	Transfers	Depreciation	Impairment loss	Total
Machinery Equipment	8,175,145	4,872,738	(75,278)	691,234	-	(729,201)	(28,889)	12,905,749
Furniture and Office Equipment	1,213,929	725,083	(15,884)	-	-	(319,767)	(5,596)	1,597,765
Transport Assets	2,611,984	2,512,879	(166,718)	379,606	-	(579,107)	(23,144)	4,735,500
Computer Equipment	843,690	244,197	(2,925)	-	-	(264,391)	(2,760)	817,811
Solid Waste Disposal	202,651	31,500	-	-	-	(19,846)	-	214,305
Dwellings	634,298	-	-	-	-	(100,999)	-	533,299
Assets Under Construction	43,127,077	66,730,728	-	-	(32,793,835)	-	-	77,063,970
Non Residential Dwellings	44,269,159	15,000	(2,726,425)	-	734,101	(2,551,810)	(405,812)	39,334,213
Roads	93,788,779	50,800	(112,003)	-	32,059,734	(10,549,414)	(176,623)	115,061,273
	<b>194,866,712</b>	<b>75,182,925</b>	<b>(3,099,233)</b>	<b>1,070,840</b>	<b>-</b>	<b>(15,114,535)</b>	<b>(642,824)</b>	<b>252,263,885</b>

#### Assets under construction comprises:

	Cost	Additions	Transfers	Total
Buildings	4,822,273	33,869,953	(734,101)	37,958,125
Roads	38,304,804	32,860,775	(32,059,734)	39,105,845
	<b>43,127,077</b>	<b>66,730,728</b>	<b>(32,793,835)</b>	<b>77,063,970</b>

#### Impairment of Assets

Impairment of the assets above are as a result of a conditional assessment performed during the physical verification of assets exercise.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 2. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers received	Fair value adjustments	Transfers	Depreciation	Impairment loss	Total
Machinery Equipment	4,233,024	5,528,129	(1,123,907)	3,406	5,994	-	(417,157)	(54,344)	8,175,145
Furniture and Office Equipment	960,900	521,572	(32,562)	15,780	18,598	-	(270,359)	-	1,213,929
Transport Assets	2,422,150	963,950	(352,933)	-	-	-	(377,106)	(44,077)	2,611,984
Computer Equipment	635,648	461,857	(38,147)	1,223	-	-	(216,891)	-	843,690
Solid Waste Disposal	217,499	-	-	-	-	-	(14,848)	-	202,651
Dwellings	587,987	135,900	-	-	-	-	(89,589)	-	634,298
Assets Under construction	51,081,837	34,853,352	-	-	-	(42,808,112)	-	-	43,127,077
Non ResidentialDwellings	38,833,407	-	(22,698)	-	-	7,667,826	(2,087,817)	(121,559)	44,269,159
Roads	66,801,206	-	(690,080)	-	-	35,140,286	(7,462,634)	-	93,788,779
	<b>165,773,658</b>	<b>42,464,760</b>	<b>(2,260,327)</b>	<b>20,409</b>	<b>24,592</b>	<b>-</b>	<b>(10,936,401)</b>	<b>(219,980)</b>	<b>194,866,712</b>

#### Impairment of assets

Impairment of the assets above are as a result of a conditional assessment performed during the physical verification of assets exercise.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 3. Intangible Assets

	2015			2014		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	703,677	(247,967)	455,710	346,180	(162,884)	183,296

### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	183,296	359,953	(72)	(87,467)	455,710

### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	101,424	126,441	(3,067)	(41,502)	183,296

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 4. Receivables from exchange transactions

Sundry debtors	70,343	91,354
Interest	12,985	5,011
Rei Management	2,379,003	2,379,003
Rei Management (Provision for Bad debts)	(2,379,003)	(2,379,003)
	<b>83,328</b>	<b>96,365</b>

### 5. VAT receivable

Value Added Tax	7,484,687	6,517,221
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The municipality is predominantly funded by Government Grants which are zero rated. Therefore VAT input has been claimed which has not been received as yet.

### 6. Trade and other receivables from non exchange transactions

#### Gross balances

Rates	6,222,642	4,517,694
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#### Less: Allowance for impairment

Rates	(1,736,980)	(1,341,275)
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#### Net balance

Rates	4,485,662	3,176,419
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#### Rates

121 - 365 days	4,485,662	3,176,419
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#### Reconciliation of allowance for impairment

Balance at beginning of the year	(1,341,275)	(944,265)
Contributions to allowance	(395,705)	(397,010)
	<b>(1,736,980)</b>	<b>(1,341,275)</b>

# Umzumbe Local Municipality

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### 7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

Cash on hand	126	-	-
Bank balances	100,848,996	82,221,589	
Short-term deposits	9,564,191	9,564,413	
	<b>110,413,313</b>	<b>91,786,002</b>	

The short-term deposits refer to investments held in First National Bank Ltd in Port Shepstone.

### The municipality had the following bank accounts

Account number / description	Bank statement balances June 30, 2015	Bank statement balances June 30, 2014	Cash book balances June 30, 2015	Cash book balances June 30, 2014
ABSA BANK LTD - Port Shepstone - 40-7276-2850	100,165,123	82,666,837	100,162,151	81,564,462
ABSA Housing Account - Port Shepstone - 40-7278-0715	558,677	533,918	558,677	533,918
ABSA MIG Account - Port Shepstone 40 - 7277-6506	128,168	123,210	128,168	123,209
FNB - Money market account	3,880,505	3,880,727	3,880,505	3,880,727
FNB 32 day fixed deposit account	5,683,686	5,683,686	5,683,686	5,683,686
<b>Total</b>	<b>110,416,159</b>	<b>92,888,378</b>	<b>110,413,187</b>	<b>91,786,002</b>

### 8. Unspent Conditional Grants and Receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Project Consolidate	99,885	99,885
GIS grant	7,985	7,985
Low cost housing grant	538,858	533,953
Ntelezi Msane	-	578,620
Municipal Infrastructure Grant	-	249,496
Disaster Management Grant	4,804,470	730,839
KZN Sports	1,974,171	475,585
Land Use Scheme	347,190	-
National Electrification	719,745	5,025,196
	<b>8,492,304</b>	<b>7,701,559</b>

#### Movement during the year

Balance at the beginning of the year	7,701,558	12,123,525
Additions during the year	74,523,816	39,275,040
Income recognition during the year	(73,733,070)	(43,697,006)
	<b>8,492,304</b>	<b>7,701,559</b>

See Note13 for reconciliation of grants from National/Provincial Government.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 9. Provisions

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Actuarial Loss (Gain)	Current Service cost	Finance Cost	Total
Provision for Bonus	680,206	898,919	(680,206)	-	-	-	898,919
Long Service Awards	541,000	-	(30,346)	(12,654)	107,000	46,000	651,000
Leave Pay	2,018,459	760,523	(449,844)	-	-	-	2,329,138
	<b>3,239,665</b>	<b>1,659,442</b>	<b>(1,160,396)</b>	<b>(12,654)</b>	<b>107,000</b>	<b>46,000</b>	<b>3,879,057</b>

#### Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Actuarial Loss (Gain)	Current Service Cost	Finance Cost	Total
Provision for Bonus	634,290	680,206	(634,290)	-	-	-	680,206
Long Service Awards	455,000	-	(30,474)	(13,526)	93,000	37,000	541,000
Leave Pay	1,915,269	464,813	(361,623)	-	-	-	2,018,459
	<b>3,004,559</b>	<b>1,145,019</b>	<b>(1,026,387)</b>	<b>(13,526)</b>	<b>93,000</b>	<b>37,000</b>	<b>3,239,665</b>
Non-current liabilities					642,000		509,000
Current liabilities					3,237,057		2,730,665
					<b>3,879,057</b>		<b>3,239,665</b>

#### Provision for Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2015 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2015 by a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

#### The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	8,58%	7,96%
CPI (Consumer Price Inflation)	6,90%	6,33%
Normal Salary Increase Rate	7,90%	7,33%
Net Effective Discount Rate	0,63%	0,59%

#### The effect of a 1 % increase movement in the assumed rate of salary inflation is as follows:

Total Accrued Liability	721,000	597,000
Current Service Cost	151,000	121,000
Interest Cost	72,000	51,000
	<b>944,000</b>	<b>769,000</b>

#### The effect of a 1 % decrease movement in the assumed rate of salary inflation is as follows:

Total Accrued Liability	591,000	491,000
Current Service Cost	119,000	59,000
Interest Cost	59,000	42,000
	<b>769,000</b>	<b>592,000</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 10. Operating lease asset (liability)

Current liabilities	(17,569)	(9,464)
	<b>(17,569)</b>	<b>(9,464)</b>

Office equipment was leased by the Municipality. Operating lease payments are recognised as an expense on a straight line basis over the lease term.

The municipality entered into a long term lease agreement with Ingonyama Trust for the lease of land for the construction of office buildings. The operating lease payments are recognised as an expense on a straight line basis over the lease term.

#### Minimum Lease Payments due

Within one year	70,120	69,007
In second to fifth year inclusive	50,456	57,506
Over five years and until the end of the lease	432,115	-
	<b>552,691</b>	<b>126,513</b>

### 11. Trade and Other Payables

Trade payables	1,728,522	4,342,305
Other payables	154,131	92,361
Rental Deposits	20,000	20,000
Retention	10,049,454	6,897,998
	<b>11,952,107</b>	<b>11,352,664</b>

### 12. Property rates

#### Rates

Property Rates Billed	4,975,846	4,977,152
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# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 13. Government grants and subsidies

#### Grant Realised

Equitable share	105,320,000	94,545,000
Municipal Systems Improvement Grant	934,000	890,000
Low Cost Housing Grant	19,911	-
Financial Management Grant	1,800,000	1,650,000
Disaster Management Grant	5,926,369	6,698,126
Ntelezi Msane	4,578,620	421,380
Municipal Infrastructure Grant	48,619,496	30,939,504
Expanded Public Works Program	1,020,000	-
Land Use Scheme	152,810	-
Intergrated National Electrification Programme	10,305,450	2,934,531
KZN Sports Grant	376,414	163,465
	<b>179,053,070</b>	<b>138,242,006</b>
	<b>179,053,070</b>	<b>138,242,006</b>

#### Project Consolidate

Balance unspent at beginning of year	99,885	99,885
Conditions still to be met - remain liabilities (see note 8)		

#### Municipal Systems Improvement Grant

Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(934,000)	(890,000)
	-	-

#### GIS Grant

Balance unspent at beginning of year	7,985	7,985
Conditions still to be met - remain liabilities (see note 8)		

#### Low Cost Housing Grant

Balance unspent at beginning of year	533,953	512,913
Current-year receipts	24,815	21,040
Conditions met - transferred to revenue	(19,911)	-
	<b>538,857</b>	<b>533,953</b>

Conditions still to be met - remain liabilities (see note 8)

#### Ntelezi Msane Grant

Balance unspent at beginning of year	578,620	1,000,000
Current-year receipts	4,000,000	-
Conditions met - transferred to revenue	(4,578,620)	(421,380)
	-	<b>578,620</b>

#### Financial Management Grant

Current-year receipts	1,800,000	1,650,000
Conditions met - transferred to revenue	(1,800,000)	(1,650,000)

# Umzumbe Local Municipality

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### 13. Government grants and subsidies (continued)

# Umzumbe Local Municipality

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### 13. Government grants and subsidies (continued)

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	249,496	-
Current-year receipts	48,370,000	31,189,000
Conditions met - transferred to revenue	(48,619,496)	(30,939,504)
	-	<b>249,496</b>

#### Expanded Public Works Program

Current-year receipts	1,020,000	-
Conditions met - transferred to revenue	(1,020,000)	-
	-	-

Conditions still to be met - remain liabilities (see note 8)

#### Disaster Management Grant

Balance unspent at beginning of year	730,839	7,428,965
Current-year receipts	10,000,000	-
Conditions met - transferred to revenue	(5,926,369)	(6,698,126)
	<b>4,804,470</b>	<b>730,839</b>

Conditions still to be met - remain liabilities (see note 8)

#### KZN Sports

Balance unspent at beginning of year	475,585	114,050
Current-year receipts	1,875,000	525,000
Conditions met - transferred to revenue	(376,414)	(163,465)
	<b>1,974,171</b>	<b>475,585</b>

Conditions still to be met - remain liabilities (see note 8).

#### Scheme and Land Support Project

Current-year receipts	500,000	-
Conditions met - transferred to revenue	(152,810)	-
	<b>347,190</b>	-

Conditions still to be met - remain liabilities (see note 8).

#### National Electrification Grant

Balance unspent at beginning of year	5,025,196	2,959,727
Current-year receipts	6,000,000	5,000,000
Conditions met - transferred to revenue	(10,305,451)	(2,934,531)
	<b>719,745</b>	<b>5,025,196</b>

Conditions still to be met - remain liabilities (see note 8).

### 14. Investment revenue

#### Interest revenue

Interest Received on Investments	6,429,747	4,503,583
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# Umzumbe Local Municipality

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<b>15. Other income</b>		
Tender Income	320,754	188,412
Sundry income	1,676,061	256,701
	<b>1,996,815</b>	<b>445,113</b>
<b>16. General expenses</b>		
Advertising	592,341	425,327
Auditors remuneration	1,192,279	1,159,504
Bank charges	165,116	137,769
Consulting and professional fees	1,241,237	1,571,118
Consumables	264,973	182,147
Functions and refreshments	293,085	271,536
Insurance	592,803	511,027
Bursaries	497,480	452,145
Conferences and seminars	341,812	440,763
IT expenses	184,459	140,758
Marketing	370,831	314,275
Motor vehicle expenses	1,073,170	879,560
Printing and stationery	606,805	438,459
Security (Guarding of municipal property)	933,429	733,104
Telephone and fax	1,407,852	1,580,218
Training	862,153	448,094
Subsistence and Travel	2,077,863	1,458,805
Electricity	116,458	463,987
Free basic services (Electricity)	11,665,390	6,164,076
Uniforms	117,972	234,169
Lease Rentals on Operating Lease	232,829	189,543
Project Expenditure	18,010,610	13,439,901
Community Participation	2,149,652	1,132,308
Other expenses	4,435,043	6,958,245
	<b>49,425,642</b>	<b>39,726,838</b>

# Umzumbe Local Municipality

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<b>17. Employee related costs</b>		
Basic Salary	21,152,402	17,019,938
Bonus	2,055,827	1,660,181
Medical aid - company contributions	990,952	837,454
Unemployment Insurance Fund	151,964	122,283
Skills Development Levy	276,312	228,787
Leave pay provision charge	760,523	464,813
Pension Contribution	2,181,336	1,775,716
Travel, motor car, accommodation, subsistence and other allowances	4,284,136	3,626,553
Overtime payments	469,748	501,774
Acting allowances	155,953	113,387
Other Salary costs	466,084	187,858
	<b>32,945,237</b>	<b>26,538,744</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	768,800	674,390
Car Allowance	256,266	235,021
Performance Bonus	136,993	98,485
Other	40,120	44,327
	<b>1,202,179</b>	<b>1,052,223</b>
<b>Remuneration of Chief Financial Officer</b>		
Annual Remuneration	667,884	585,867
Car Allowance	222,627	204,171
Performance Bonuses	128,165	119,780
Leave Payout	-	164,270
Other	34,945	43,261
	<b>1,053,621</b>	<b>1,117,349</b>
<b>Remuneration Corporate Services Director</b>		
Annual Remuneration	624,662	547,953
Car Allowance	208,220	190,958
Performance Bonuses	111,309	124,029
Acting Allowance	-	15,387
Other	33,559	35,279
	<b>977,750</b>	<b>913,606</b>
<b>Remuneration of Technical Services Director</b>		
Annual Remuneration	667,884	585,867
Car Allowance	222,627	204,171
Performance Bonuses	119,010	111,225
Other	34,854	39,900
	<b>1,044,375</b>	<b>941,163</b>

# Umzumbe Local Municipality

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### 17. Employee related costs (continued)

#### Remuneration of Social & Economic Development Director

Annual Remuneration	464,120	547,953
Car Allowance	154,706	190,958
Performance Bonuses	77,060	80,021
Other	40,065	46,836
Acting Allowance	16,464	-
Leave Payout	143,879	-
	<b>896,294</b>	<b>865,768</b>

### 18. Remuneration of councillors

Mayor	684,366	642,035
Deputy Mayor	617,621	605,474
Speaker	597,030	591,892
Councillors	10,284,747	9,547,132
	<b>12,183,764</b>	<b>11,386,533</b>

### 19. Debt impairment

Contributions to debt impairment provision	395,705	397,010
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### 20. Depreciation, amortisation and Impairment

Property, plant and equipment	15,757,357	11,156,381
Intangible assets	87,467	41,502
	<b>15,844,824</b>	<b>11,197,883</b>

### 21. Auditors' remuneration

Fees	1,192,279	1,159,504
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### 22. Cash generated from operations

Surplus	76,522,885	49,785,151
<b>Adjustments for:</b>		
Depreciation and amortisation	15,844,824	11,197,883
Loss on sale of assets	2,886,641	1,348,391
Debt impairment	395,705	397,010
Movement in operating lease accrual	8,105	7,899
Movements in provisions	639,392	235,106
Other non-cash items	(1,070,836)	(45,002)
Prior Year Adjustments	-	1,819,014
<b>Changes in working capital:</b>		
Receivables from exchange transactions	13,037	(4,161)
Trade and other receivables from non exchange transactions	(1,704,948)	(2,326,087)
Trade and Other Payables	599,440	2,701,754
VAT	(967,466)	(4,790,270)
Unspent Conditional Grants and Receipts	790,745	(4,421,966)
	<b>93,957,524</b>	<b>55,904,722</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 23. Commitments

#### Authorised capital expenditure

##### Approved and contracted for:

• Infrastructure	38,920,823	14,698,136
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##### Approved but not yet contracted for:

• Infrastructure	71,705,446	125,278,338
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#### Total capital commitments

Already contracted for but not provided for	38,920,823	14,698,136
Not yet contracted for and authorised by accounting officer	71,705,446	125,278,338
	<b>110,626,269</b>	<b>139,976,474</b>

This committed expenditure relates to Infrastructure and will be financed by Government Grants.

### 24. Unauthorised expenditure

Opening balance	2,379,003	2,379,003
Less: Amounts written off	-	-
	<b>2,379,003</b>	<b>2,379,003</b>

### 25. Fruitless and wasteful expenditure

Opening balance	-	15,864
Current year expenditure	16,206	69,072
Less: Amounts written off	(16,206)	(84,936)
	-	-

#### Incidents

- The municipality incurred fruitless and wasteful expenditure of R14 906 due to interest and penalties arising from late payments.
- The municipality incurred fruitless and wasteful expenditure of R1 300.00 in relation to traffic fines.

# Umzumbe Local Municipality

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### 26. Irregular expenditure

	2015	2014
Opening balance	-	7,241,157
Add: Irregular Expenditure - current year	-	19,408,291
Less: Amounts written off	-	(26,649,448)
	-	-

# Umzumbe Local Municipality

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### 27. Effects of correction of prior year errors on financial statements

Errors relating to the incorrect capturing of accruals were identified.

Opening balance for VAT in the prior year was adjusted due to claims from prior year.

Reclassification was done relating to a prior year debtor balance. The effects of the corrections are as follows:

Statement of Financial Position	Note	As previously reported	Correction of errors	Reclassification	Total
Receivables from exchange transactions	4	77,663	-	18,702	96,365
VAT Receivable	5	4,725,026	1,792,195	-	6,517,221
Trade and Other Receivables from Non Exchange Transactions	6	3,176,419	-	-	3,176,419
Cash and Cash Equivalents	7	91,786,002	-	-	91,786,002
Property, Plant and Equipment	2	194,866,712	-	-	194,866,712
Intangible Assets	3	183,296	-	-	183,296
<b>Total Assets</b>	-	<b>294,815,118</b>	<b>1,792,195</b>	-	<b>296,626,015</b>
Operating Lease Liability	10	(9,464)	-	-	(9,464)
Trade and Other Payables	11	(11,436,688)	102,725	(18,702)	(1,352,663)
Unspent Conditional Grants and Receipts	8	(7,701,559)	-	-	(7,701,559)
Current : Provisions	9	(2,730,665)	-	-	(2,730,665)
Non Current Provisions	9	(509,000)	-	-	(509,000)
Accumulated Surplus	-	(272,427,743)	(1,894,921)	-	(274,322,664)
<b>Total Liabilities and Equity</b>	-	<b>-</b>	<b>-</b>	-	<b>(296,626,015)</b>
	-	<b>294,815,118</b>	<b>1,792,195</b>	-	<b>-</b>

Statement of financial performance	Note	As previously reported	Correction of errors	Reclassification	Total
Other Income	15	445,113	-	-	445,113
Interest Received - Investment	-	4,503,583	-	-	4,503,583
Property Rates	12	4,977,152	-	-	4,977,152
Government Grants & Subsidies	13	138,242,006	-	-	138,242,006
<b>Total Revenue</b>	-	<b>148,167,854</b>	<b>-</b>	-	<b>148,167,854</b>
Employee Related Costs	17	(26,538,744)	-	-	(26,538,744)
Remuneration of Councillors	18	(11,386,533)	-	-	(11,386,533)

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Depreciation Amortisation and Impairment	20	(11,197,883)	-	-	(11,197,883)
Finance Cost	-	(37,000)	-	-	(37,000)
Debt Impairment	19	(397,010)	-	-	(397,010)
Repairs and Maintenance	-	(7,741,171)	(9,133)	-	(7,750,304)
Community Participation	-	(1,132,308)	-	-	(1,132,308)
General Expenses	16	(38,679,568)	85,038	-	(38,594,530)
Loss on Disposal of Assets	-	(1,348,391)	-	-	(1,348,391)
<b>Surplus for the year</b>	<b>-</b>	<b>49,709,246</b>	<b>75,905</b>	<b>-</b>	<b>49,785,151</b>

<b>Cashflow Statement</b>		<b>Note</b>	<b>As previously reported</b>	<b>Correction of errors</b>	<b>Total</b>
Government Grants and subsidies	-	133,820,040	-	133,820,040	
Cash Receipts from Customers	-	2,652,128	-	2,652,128	
Interest Income	-	4,503,583	-	4,503,583	
Finance Costs	-	(37,000)	-	(37,000)	
Cash Paid to Suppliers and Employees	-	(85,034,029)	-	(85,034,029)	
Purchase of Property, Plant and Equipment	2	(42,464,760)	-	(42,464,760)	
Purchase of intangible assets	3	(126,441)	-	(126,441)	
Proceeds from Sale of Assets	-	915,003	-	915,003	
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>14,228,524</b>	<b>-</b>	<b>14,228,524</b>	

### 28. Contingent liability

Incidents.

The municipality is currently involved in a legal dispute with Only If Management CC regarding waste collection services. The municipality believes that it is in a favourable position of winning the case. Should the municipality be held liable, the estimated cost regarding this matter will be R 526 315.26.

The municipality has not completed any employee job evaluations as prescribed in terms of the Salary and wage collective agreement between SALGA, IMATU and SAMWU - 27 July 2012. As a result the municipality is unable to measure, with sufficient reliability, the amount of such obligation for both the 30 June 2015 and 30 June 2014 year-ends.

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### 29. Risk management

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and rates debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

#### Financial instrument

Trade and other receivables from non exchange transactions (Rates)	4,485,662	3,176,419
Cash and Cash Equivalents	110,413,313	91,786,002

### 30. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

# Umzumbe Local Municipality

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### 31. Additional disclosure in terms of Municipal Finance Management Act

#### Contribution to Local Government Associations

Current year subscription	500,000	751,799
Amount paid	(500,000)	(751,799)
	-	-

#### Audit fees

Current year fee	1,192,279	1,159,504
Amount paid - current year	(1,192,279)	(1,159,504)
	-	-

#### PAYE and UIF

Current year deductions	7,691,281	6,359,899
Amount paid	(7,691,281)	(6,359,899)
	-	-

#### Pension and Medical Aid Deductions

Current year	5,304,020	4,255,604
Amount paid	(5,304,020)	(4,255,604)
	-	-

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### 32. Multi employer retirement benefit

Umzumbe Local Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All full-time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

### DEFINED BENEFIT SCHEMES

#### Retirement Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2014 by Argen Actuaries.

The interim actuarial valuation performed as at 31 March 2014 revealed that the fund had a shortfall of R 124 (31 March 2013: shortfall of R 203,7) million, with a funding level of 91,7% (31 March 2013: 86,0%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (34,22%) should be sufficient to eradicate the shortfall in the fund. However, the basic contribution payable is 0,5% less than the required contribution rate.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17,5% of pensionable emoluments, of which 1,65% is payable by members and 15,85% is payable by the local authority

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund.

#### Superannuation Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2014 by Argen Actuaries.

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The interim actuarial valuation performed as at 31 March 2014 revealed that the fund had a shortfall of R 0 (31 March 2011: shortfall of R 549,5) million, with a funding level of 100,0% (31 March 2011: 90,9%). The contribution rate paid by the members (9,25%) and municipalities (18,00%) is 0,71% (31 March 2011: 3,63%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 9,5% (31 March 2011 7,0%) of pensionable salaries. It was expected that the deficit will be fully funded by 2016.

This surcharge is payable until 31 July 2020. The surcharge to local authorities amounts to 9,50% (31 March 2011 7,00%). The "Scheme to eliminate deficiency" in terms of Section 18 of the Pension Funds Act was implemented with effect from 1 August 2012 for a period of 8 years.

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund. It is intended that the Fund will merge with the Retirement Fund in the near future.

### DEFINED CONTRIBUTION SCHEMES

#### Municipal Councillors Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The interim valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R 1 483,786 381 (30 June 2010: R 1 123,672 020) million. The contribution rate paid by the members (13,75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2011.

#### Provident Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2014 by Argen Actuaries.

The interim actuarial valuation performed as at 31 March 2014 revealed that the market value of the fund was R 2 151,9 (31 March 2012: R 1 288,3) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 6,00%, 9,90% or 14,25% plus an additional 3,75% by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2014.

None of the above mentioned plans are State Plans.

### 33. Related Party Transactions

#### Section 45 and 44 of SCM Regulations

##### Purchases from related parties

Odaleka Maintenance and Projects	61,100	-
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Odaleka Maintenance and Projects - The company is owned by the spouse of an employee (Manager Internal Audit) of Umzumbe Municipality.

# Umzumbe Local Municipality

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### 34. Section 36 deviations

During the year the Accounting Officer approved minor breaches amounting to R207 362.24 (2014 - R771 332.00)

During the year the Accounting Office approved deviations for emergencies relating to disaster amounting to R4 885 015.26 and R 2 919 296.59 relating to the termination of a contract due to poor performance.